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ORIGINAL: ENGLISH

COMMISSION ON TRANSNATIONAL CORPORATIONS
Sixteenth session
2-11 April 1989
Item 13 of the provisional agenda*

QUESTION OF EXPERT ADVISERS

Note by the Secretariat

1. At its second session, the Commission on Transnational Corporations proposed that expert advisers should be "selected in a balanced way on the basis of their practical experience, particularly from trade unions, business, public interest groups and universities, from both developed and developing countries, taking into account the need for balanced geographical representation". 1/

2. At its sixth session, the Commission considered a note by the Secretariat (E/C.10/73 and Add.1 and 2) concerning the modalities for the selection, rotation and participation of expert advisers. It decided that each expert adviser would be selected for a two-year term and would be eligible for re-election for one additional two-year term only, and it agreed to maintain the modalities for the participation of the expert advisers which were decided at its resumed second session. 2/

3. Currently, eight of the 16 expert advisers are from developing countries, seven from developed market economy countries and one from the socialist countries of Eastern Europe. Five have a business background; five, a trade union background; and six, an academic or other background.

4. The Commission may wish to select 16 expert advisers to serve until the end of the eighteenth session. Biographical information on the advisers eligible for re-election is provided in the annex to this note. Information on the remaining candidates will appear in an addendum.

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* E/C.10/1990/1.

best copy available

Notes

1/ Official Records of the Economic and Social Council, Sixty-first Session, Supplement No. 5 (E/5782), para. 36.

2/ Official Records of the Economic and Social Council, 1980, Supplement No. 10 (E/1980/40/Rev.1), para. 112.

Annex

LIST OF CANDIDATES

A. Business background

1. **Laurence McQUADE*** (United States of America)

Born: 7

Education: B.A., Economics, Yale University
B.A./M.A., Jurisprudence, Oxford University
LLB, Harvard Law School

Present posts: Vice Chairman, Prudential Mutual Fund Management Inc.

Senior Consultant, Investment Banking Prudential-Bache Securities, Inc.

Chairman, Committee on Multinational Enterprises and Investment, United States Council for International Business

Posts held: Executive Vice-President, W. R. Grace and Co.

Chairman, Universal Money Center Inc.

President and Chief Executive Officer, Procon Inc.

Assistant Secretary for Domestic and International Business, United States Department of Commerce

Assistant to the Assistant Secretary for International Security Affairs, United States Department of Defense

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* Current expert adviser eligible for re-election.

2. José María BASAGOITI* (Mexico)

Born: 1923

Education: Doctorate in Law and Philosophy University of Madrid, Spain

Present posts: Chairman Emeritus, Cigarros La Tabacalera Mexicana, S.A.

Chairman, Industrias Lacteas Chihuahuenses, S.A.

Member of the Board, Metalurgica Almena, S.A.

Chairman, Mexican Chapter of the International Chamber of Commerce and Member of the Executive Board of ICC

Founding member, Union Social de Empresarios Mexicanos (USEM). Member of the Advisory Board of the USFM Confederation

Founding member of the Instituto Panamericano de Alta Direccion de Empresas (IPADE)

Posts held: Chairman, Carbonell de Mexico, S.A.

Chairman, Tabacos Mexicanos, S.A.

Member of the Board, Banco Nacional de Mexico, S.A.

Member of the Board, Seguros America, S.A.

Member of the Board, Financiera Banamex, S.A.

Chairman, Confederation patronal de la Republica Mexicana (Coparmex)

READEX FICHE

B. Academic or other background

1. WANG Linsheng* (China)

Born: 1930

Education: Graduate of Department of Economics, Tsing Hua University, Beijing
Post-graduate studies in International Trade at China People's University and Beijing Institute of Foreign Trade (BIFT)

Present posts: Professor and Vice-President University of International Business and Economics

Vice-President, China International Trade Association (CITA)

Member, Academic Degree Appraisal Committee, State Council and Research Institute of Finance and Commerce

Member of the Board of Directors of China Association of World Economy

Posts held: Associate Professor, Department of Foreign Trade, BIFT

Dean, Faculty of International Trade (UIBE)

Secretary-General, CITA

2. Nikolai G. ZAITSEV* (USSR)

Born: 1946

Education: Doctor of Economic Science
Moscow State Institute of International Relations

Present post: Deputy Director, Institute for Latin American Studies; USSR Academy of Science

Posts held: Chief, Section of Foreign Economic Problems of Developing Countries, USSR Academy of Sciences

Lecturer at Moscow State Institute of International Relations

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QUESTION OF EXPERT ADVISERS

Note by the Secretariat

Addendum

A list of candidates for expert advisers with business and academic backgrounds was provided in the annex to document E/C.10/1990/17. The present addendum contains the names of three additional candidates with a business background, and five candidates with an academic or other background.

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* E/C.10/1990/1.

A. Business background

Peter FRERK* (Federal Republic of Germany)	Born:	1930
	Education:	Degree in Law and Business Administration, Berlin and Cologne Universities
		Preparatory legal services at Düsseldorf High Court
		Dr. Jur., University of Cologne
	Present posts:	Member of Executive Board of Management, Volkswagen AG. responsible for corporate legal affairs, economic policies and audit
		Vice-President, Chamber of Commerce, Lüneburg
		Chairman, Working Group on Multinational Enterprises of the Federation of German Industries (BDI), Cologne
		Representative of the Federal Republic of Germany, Business and Industry Advisory Committee (BIAC), to the Organisation for Economic Co-operation and Development (OECD), Committee on International Investment and Multinational Enterprises (CIME)
	Posts held:	Deputy City Manager, City of Hannover
Karl-Erik ÖNNESJÖ (Sweden)	Born:	1919
	Education:	Bachelor of Law, University of Uppsala
	Present posts:	Chairman of the Board of Holmen, Bruk, AB.
		Chairman of the Board of the Confederation of Swedish Employers (SAF)

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* Current Expert Adviser eligible for re-election.

Member of the Board of Scandinavian Enskilda Banken

Vice-Chairman of the Union of Industrial and Employers Confederation of Europe (UNICE)

Member of the Board of the Federation of Swedish Industries

Member of the Board of ABV

Posts held: Assistant Minister, Department of Commerce of Sweden

Member of the State Power Board of Sweden

Managing Director of the Federation of Swedish Forest-owners

Member of the Board of the Employers' Federation of Swedish Forest Industries

Antonio COLOMBO
(Italy)

Born: 1951

Education: Law Degree, University of Naples

M.A., Economics, Columbia University

Present posts: Head, Financial and Taxation Department, Confederation of Italian Industrial Companies (Confindustria)

Lecturer in Economic Planning, International University of Social Studies, Rome

Posts held: Assistant to the President of UNICE, Bruxelles

Research Fellow in Economic Policy, LUISS University, Rome

Chairman of the Working Group on Monetary Matters, UNICE, Bruxelles

Samuel Esson Kwesi JONAH (Ghana)	Born:	1949
	Education:	M.S., Mineral Economics, Imperial College of Science and Technology, London
	Present posts:	Managing Director of Ashanti Goldfields Corporation (Ghana) Ltd.
		President, Chamber of Mines of Ghana
		Member, Business Advisory Council, International Finance Corporation (IFC)
		Member, Business Advisory Council, African Development Bank
		Member, Board of Directors, Ghana Investment Centre
		Member, Board of Directors, Mineral Commission of Ghana
		Chairman, Advisory Board, Institute of Mining and Mineral Engineering, University of Science and Technology, Kumasi, Ghana
		President, Society of Mining, Petroleum and Metalurgical Engineers
	Posts held:	Deputy Managing Director, Ashanti Goldfields Corporation (Ghana) Ltd.

B. Academic or other background

Manmohan SINGH (India)	Born:	1932
	Education:	Dr. Philosophy, Nuffield College, University of Oxford, Economic Tripos, University of Cambridge
		M.A., Economics, Punjab University
	Present posts:	Secretary-General and Commissioner, South Commission

	Posts held:	Deputy Chairman, Planning Commission, India
		Governor, Reserve Bank of India
		Secretary, Department of Economic Affairs, Ministry of Finance, India
		Professor of International Trade, Delhi School of Economics, Delhi University
		President, Economic Association of India
		Member, Economic Advisory Council to the Prime Minister of India
Oswaldo SUNKEL (Chile)	Born:	1929
	Education:	Degree in Economics, University of Chile
	Present posts:	Special Advisor, Office of the Executive Secretary, Economic Commission for Latin America and the Caribbean
		Director, Pensamiento Iberoamericano, Revista de Economía Politica, Institute for Ibero-american Co-operation, Spain
		Member of the Board of Directors, International Institute for Environment and Development of Latin America (IIED)
		President, Board of Directors of the Economic Development Research Corporation (CINDE), Chile
		Member of the Board of Directors of the Centre on Environment Planning and Research (CIPMA), Chile
	Posts held:	Professorial Fellow, Institute of Development Studies, University of Sussex
		Senior Research Fellow, Latin American Faculty of Social Sciences (FLACSO), Chile
		Professor of Economics, University of Chile

Member of the Programme Committee of the Fifth and Seventh World Congress of the International Economic Association

President of the Meeting of Experts on the Study of the Impact of TNCs on Development and International Relations within the field of Competence of UNESCO

Member of the Joint Committee of Latin American Studies of the Social Science Research Council and of the American Council of Learned Societies

Member of the National Commission on Scientific and Technological Research, Chile

Oscar SCHACHTER
(United States)

Born: 1915

Education: Juris Doctor, Columbia University

Present posts: Hamilton Fish Professor Emeritus of International Law and Diplomacy, Columbia University

Posts held: Member, Panel of Arbitrators, International Centre for Settlement of Investment Disputes (ICSID)

President, American Society of International Law

Member, Institute of International Law; Chairman, United States group

Vice-Chairman, International Investment Law Conference

Deputy Executive Director, UNITAR

Director, General Legal Division, Legal Office, United Nations

Legal Counsel, UNESCO

Assistant General Counsel, UNRRA

Sidney DELL
(United Kingdom)

Born: 1918

Education: M.A., Economics, Oxford University

Present posts: Senior Fellow, United Nations Institute for Training and Research (UNITAR)

Posts held: Executive Director, United Nations Centre on Transnational Corporations (UNCTC)

Assistant Administrator, United Nations Development Programme (UNDP)

Director, Division of Financing related to Trade, United Nations Conference on Trade and Development (UNCTAD)

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ONGOING AND FUTURE RESEARCH

Non-conventional transnational corporations

Report of the Secretary-General

SUMMARY

Transnational corporations are usually perceived as large enterprises based in developed market economies. This report deals with the growing phenomenon of small and medium-sized transnational corporations, transnational corporations from developing countries and enterprises based in Eastern Europe and the Union of Soviet Socialist Republics with investments abroad. These firms have been categorized as non-conventional transnational corporations.

Taking into consideration the size, pattern and characteristics of their foreign direct investment, small and medium-sized transnational corporations can be an alternative to conventional transnational corporations in the international transfer of productive resources.

Developing country transnational corporations can play an important role in the economic development of their home countries. Access to markets and advanced technology, potential for increasing exports and generation of positive balance-of-payments effects are conceivable benefits derived from their foreign-direct-investment activities abroad. Joint ventures among developing country firms can become an effective means to promote regional economic integration among developing countries.

* E/C.10/1990/1.

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Foreign affiliates of enterprises based in Eastern Europe and the USSR help increase flows of investment and trade between the countries in this region and the rest of the world and, in the long run, can contribute to a more balanced distribution of foreign investment.

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INTRODUCTION

1. The Economic and Social Council, in its resolution 1989/22, requested the Secretary-General to prepare a report analysing recent trends concerning transnational corporations and international economic relations; in its resolution 1989/21, the Council requested the Secretary-General to prepare a report on joint ventures among national corporations from developing countries. At its fifteenth session, the Commission on Transnational Corporations requested the Secretary-General to prepare a report on the research conducted by the United Nations Centre on Transnational Corporations. 1/ This report has been prepared in response to those requests.

2. The popular image of a transnational corporation is that of a large firm based in a developed market economy with diversified forms of foreign involvement, geographically spread throughout the world and with a presence in many industries. However, this does not represent the entire universe of transnational corporations. That also includes small and medium-sized transnational corporations, transnational corporations from developing countries (including joint ventures among developing countries) and enterprises from Eastern Europe and the Union of Soviet Socialist Republics. In order to understand the universe of transnational corporations better and to formulate appropriate policies, further analysis of those transnational corporations, which have received relatively less attention, is necessary.

3. There is evidence that such non-conventional transnational corporations are becoming increasingly important in the field of foreign direct investment. 2/ This trend allows developing countries more opportunities to acquire foreign productive resources from sources alternative to conventional transnational corporations. However, policy-makers in developing countries have, in general, tended to focus on large transnational corporations from developed countries when they seek foreign direct investment, despite the fact that approximately one fifth of world foreign-direct-investment stock is owned by non-conventional transnational corporations; in terms of the number of firms, their share would be even higher.

I. SMALL AND MEDIUM-SIZED TRANSNATIONAL CORPORATIONS

A. Importance of small and medium-sized enterprises in the national and international economy

1. The role of small and medium-sized enterprises in the national economy

4. For the purpose of this study, small and medium-sized enterprises are defined as firms that employ less than 500 people in manufacturing, less than 100 in wholesale trade and less than 50 in retail trade and other services, unless otherwise specified. The 1973-1974 oil crisis and the ensuing recession increased governmental and academic interest in small and medium-sized enterprises. 3/ This increased interest was based on the hypothesis that small and medium-sized

enterprises would be more responsive to environmental changes as such enterprises are individually owned or managed by fewer people, would be price-takers in most markets, would be more labour-intensive and would have a relatively higher share of net firm formation (birth rates minus death rates). As such, small and medium-sized enterprises could help alleviate such problems as unemployment and decline in investment resulting from sudden changes in demand and supply conditions. In many countries, the importance of small and medium-sized enterprises in the economy continues to grow.

5. One of the main roles that small and medium-sized enterprises play is their contribution to the growth of employment. In most developed countries, small and medium-sized enterprises have generated more employment than large firms since the mid-1970s. This increased employment compensated the loss of employment in large firms (in manufacturing and services in Italy, in manufacturing in Japan and in the primary sector in the United States of America), or alleviated the decline of total employment (in manufacturing in the United States). In some countries where total employment declined, the decline was accounted for on the whole by large firms (in manufacturing in Austria, Canada and Finland). Growth of employment in services in small and medium-sized enterprises is particularly remarkable in Italy, Japan, Switzerland and the United States as a result of the fact that services are generally more labour-intensive than other sectors and that small and medium-sized enterprises are more labour-intensive than large firms. 4/ In addition to higher labour intensity, small and medium-sized enterprises' higher birth rates and higher internal growth than large firms contributed to increased employment. 5/

6. Small and medium-sized enterprises also play a significant role in innovative activities. In the United States, the number of innovations per million employees was 36 for small and medium-sized enterprises and 31 for large firms in 1982. 6/ In the United Kingdom of Great Britain and Northern Ireland, the share of small and medium-sized enterprises in the number of innovations increased from 23 per cent during 1965-1969 to 29 per cent during 1975-1979 and to 38 per cent during 1980-1983. 7/ While recognizing that numbers do not necessarily indicate importance, the contribution of small and medium-sized enterprises in innovations is clearly significant.

7. As regards exports, the results are mixed. In France, the Netherlands and Norway, the export ratio (exports/sales) is positively related to firm size, but in Italy it is not affected by firm size. In France, Italy and the United States, small and medium-sized enterprises export almost as much as large firms. In some countries, such as France, the Netherlands and Norway, exports by small and medium-sized enterprises seem to be growing faster than those by large firms. Yet many small and medium-sized enterprises do not export or export little. In the Netherlands, 43 per cent of small and medium-sized enterprises confined their sales to domestic markets in 1985, as opposed to 11 per cent of large firms. 8/

2. Foreign direct investment by small and medium-sized enterprises

8. The recent technological developments in the communication, transportation and financial industries have encouraged small and medium-sized enterprises to enter the international market. These developments have helped to reduce foreign risks

and costs, which are more important for small and medium-sized enterprises than large firms. Since they have limited resources, one failure could lead to the demise of a firm. The reasons for transnationalization vary: some small and medium-sized enterprises that are suppliers of parts and components follow their clients in international production. The transnationalization of small and medium-sized enterprises is also fuelled by the increased internationalization of the services sector, in which the share of small and medium-sized enterprises is higher than in other sectors.

9. Many small and medium-sized enterprises export at first and then establish foreign sales offices or agencies before undertaking international production. However, some small and medium-sized enterprises that are technologically advanced firms and venture businesses become transnationalized in the early stages of growth. They can exploit their technological advantages by investing abroad, and they also try to acquire foreign technologies or collaborate with foreign firms on advanced technologies. For those firms and niche producers, size is not a deterrent factor.

10. According to the Centre's data base, 9/ small and medium-sized transnational corporations have, on average, 3.2 foreign affiliates (table 1). In such smaller European countries as Denmark, Finland, Ireland, Sweden and Switzerland, the average number of foreign affiliates owned by small and medium-sized transnational corporations is higher, since the small size of the domestic market led to early transnationalization. In contrast, the average number of foreign affiliates of United States small and medium-sized transnational corporations is low because of the huge domestic market.

11. Foreign direct investment by small and medium-sized transnational corporations has been concentrated in developed market economies, which host more than 80 per cent of foreign affiliates (table 1). About 70 per cent of foreign affiliates of Western European countries are in the same region. Among the developed countries, Japanese transnational corporations are exceptional in that they demonstrate a remarkably higher preference for locating their foreign affiliates in developing countries. Within developing host regions, Latin America is the major host region for United States small and medium-sized transnational corporations, South and East Asia for Japanese firms, and Latin America and South and East Asia are almost equally important host regions for Western Europe.

12. By comparison, the pattern of geographical distribution of foreign affiliates owned by 593 of the largest transnational corporations indicates that 73 per cent of about 38,000 foreign affiliates were located in developed countries. 10/ Thus, small and medium-sized transnational corporations show a higher propensity to invest in developed countries than large transnational corporations. The high concentration in developed countries is probably due to the fact that the process of transnationalization begins with an expansion into markets whose characteristics are similar to those in home countries, and this is more evident for small and medium-sized enterprises as their foreign expansion is still a relatively recent phenomenon.

Table 1. Number and geographical distribution of foreign affiliates of small and medium-sized transnational corporations based in 18 developed countries, by country of origin and by sector of parents, 1986-1987 a/

Region/country	Total number of trans-national corporations surveyed	Total number of foreign affiliates	Number of foreign affiliates per company	Distribution by group of economies (percentage)		
				Developed market economies	Developing market economies	Centrally planned economies b/
By country of origin c/						
United States	171	426	2.49	82.6	16.9	0.5
Japan	120	438	3.65	46.6	52.3	1.1
Europe	365	1 308	3.58	92.1	7.8	0.1
of which:						
France	23	63	2.74	92.1	7.9	-
Germany, Federal Republic of	59	237	4.02	91.1	8.9	-
Italy	24	69	2.88	91.3	8.7	-
Netherlands	23	60	2.61	86.7	13.3	-
Sweden	28	113	4.04	99.1	0.9	-
Switzerland	24	95	3.96	91.6	8.4	-
United Kingdom	78	278	3.56	90.3	9.7	-
Total	735	2 369	3.22	81.4	18.3	0.3
By sector of parents d/						
Primary	25	86	3.44	86.0	14.0	-
Manufacturing	514	1 517	2.95	85.1	14.5	0.4
of which:						
Textiles and clothing	45	101	2.24	81.2	16.8	2.0
Chemicals	56	202	3.61	82.2	17.8	-
Metals	57	186	3.26	87.1	12.9	-
Mechanical equipment	105	328	3.12	88.4	11.0	0.6
Electrical equipment	64	172	2.69	78.5	21.5	-
Services	195	765	3.92	73.5	26.3	0.3
of which:						
Distributive trade	87	307	3.53	75.2	24.4	0.3
All industries	734	2 368	3.23	81.4	18.3	0.3

Source: United Nations Commission on Transnational Corporations data base on small and medium-sized transnational corporations.

a/ Includes all identified foreign entities regardless of form of organization (i.e. subsidiaries, branches, representative offices, etc.). Small and medium-sized transnational corporations here are those whose employment is less than 500 in all sectors. Banks, insurance and other financial companies are excluded.

b/ Includes China.

c/ Countries that do not appear in this table but are included are Australia, Austria, Belgium, Canada, Denmark, Finland, Ireland, New Zealand and Norway.

d/ Sectors are classified according to the primary business of the company.

13. The geographical distribution by sector of parents points to more concentration in developed countries in manufacturing than in services. Distributive trade in services and non-metallic mineral products and electrical equipment in manufacturing are the industries in which small and medium-sized transnational corporations tend to establish foreign affiliates in developing countries more often than in other industries.

14. Japanese small and medium-sized transnational corporations, 11/ as was the case with large transnational corporations, started with South-East Asia as their preferred location for foreign production. This region still accounts for about one third of new equity investment cases for both large and small and medium-sized transnational corporations. About 40 per cent of the number of total new equity investments by Japanese firms during 1980-1986 were by small and medium-sized transnational corporations. In terms of value, these firms accounted for about 15 per cent of all foreign direct investment during the same period, but this share is three times as high as in the latter half of the 1970s. Foreign direct investment by these transnational corporations first increased around the 1970s, owing to the labour shortages in Japan. From the mid-1970s to mid-1980s, their foreign direct investment was directed towards developed countries, following the demand for their products. Since 1985, as a result of the dramatic appreciation of the yen, small and medium-sized transnational corporations moved back to South-East Asia once again. During 1986-1988, almost the same number of new equity investments were made in South-East Asia as in North America, which together accounted for about 90 per cent of all investments. These two regions are also the largest host regions for Japanese large transnational corporations, accounting for about 70 per cent of their investment.

15. In contrast to Japan, the relative importance of small and medium-sized transnational corporations based in the United States and the United Kingdom shows a decline. In the United States, only 3 per cent of firms with fewer than 1,000 employees were transnational, while 87 per cent of firms with more than 10,000 employees were transnational in 1977. 12/ Between 1977 and 1982, the share of small transnational corporations whose assets were less than $100 million in all transnational corporations decreased from 68 to 42 per cent in terms of the number of transnational corporations, and from 4 to 1 per cent in terms of assets. 13/ The absolute number of United Kingdom transnational corporations declined from 1974 to 1981 (which is the latest available year), owing largely to a decline of the number of small transnational corporations. The number of enterprises whose foreign direct investment size was under £2 million decreased from 76 per cent in both 1974 and 1978 to 66 per cent in 1981. 14/ In terms of book value of foreign direct investment, the share of those enterprises decreased from 5 per cent in 1974 to 3 per cent in 1978 and 1 per cent in 1981. Although firms that make small investments are not necessarily small and medium-sized enterprises, most of them are likely to be so.

16. The number of small and medium-sized enterprises in the field of foreign direct investment or the number of foreign-direct-investment cases by small and medium-sized enterprises have been quite sizeable even if there was a decline in some countries. A small value of foreign direct investment is understandable as small and medium-sized enterprises are generally not able to make large investment

because of limited internal resources. However, because of the relatively small operations of parents, the degree of transnationalization of those transnational corporations is not necessarily low. In the case of Japanese transnational corporations, for example, the share of foreign sales to total sales of small and medium-sized transnational corporations was 26 per cent in 1988, against 16 per cent for large transnational corporations. 15/

B. Impact of small and medium-sized transnational corporations in developing countries

17. An evaluation of the impact of small and medium-sized transnational corporations on the economic development in developing countries in contrast to that of large transnational corporations requires further research. However, some preliminary observations can be made regarding their contribution to the host economy through technology transfer, employment and other effects.

18. Although small and medium-sized enterprises operate on a more labour-intensive basis and create more job opportunities in the national economy, small and medium-sized transnational corporations and their foreign affiliates are not necessarily more labour-intensive than large transnational corporations and their foreign affiliates. However, Japanese data indicate that the labour-capital ratio of Japanese small and medium-sized transnational corporations was 15 per cent higher in manufacturing, 161 per cent higher in services and 32 per cent higher in all industries in fiscal 1983 than large transnational corporations, 16/ and the average labour-capital ratio of Japanese foreign affiliates in host developing countries was about three times higher for small and medium-sized transnational corporations both in manufacturing and services than large transnational corporations in 1987. 17/ If this were also true of other developed country small and medium-sized transnational corporations for which the relevant information is not available, their affiliates could generate more employment per unit of capital than those of large transnational corporations.

19. In terms of adaptation of technologies to suit host country conditions, there is evidence that small and medium-sized transnational corporations make adaptive efforts. For example, about 63 per cent of Japanese small and medium-sized transnational corporations as at 1988 had given training in Japan to local employees, 18/ and the growth rate of acceptance of local labourers from developing countries for training in Japanese companies was higher in small and medium-sized enterprises than in large firms during 1978-1984. 19/ In Argentina, Brazil and Kenya there is evidence of frequent adaptation by small and medium-sized transnational corporations. 20/

20. One of the elements in the question of appropriate technology in developing countries is the issue of scale. The experience of small and medium-sized enterprises is usually associated with small-scale operation suited to developing country conditions in which smaller volumes of output are relevant especially in products meant for domestic consumption.

21. The role that small and medium-sized enterprises play in economic development as sub-contractors, niche producers or producers serving small communities is substantial in every country. In addition, certain characteristics of small and medium-sized enterprises (e.g. higher labour intensity and active innovation), if transferred through foreign direct investment to developing countries, could assist economic growth in those countries. As small and medium-sized transnational corporations tend to transfer their technology more to local small and medium-sized enterprises, 21/ they contribute to the development of small and medium-sized enterprises, which is often a priority concern in host developing countries.

C. Policy measures

22. Both internal and external constraints affect the transnational activity of small and medium-sized enterprises: the former include shortage of capital, management and information, and the latter concerns the lack of institutional infrastructure designed for foreign direct investment by small and medium-sized enterprises. However, some Governments have recently introduced programmes for promoting and supporting foreign direct investment by small and medium-sized enterprises. Notably, the Government of Japan is trying to expand the role of small and medium-sized enterprises for economic co-operation. Japan's Small Business Corporation, the Japan External Trade Organization and the Japan Export-Import Bank have been active in providing information, assistance and financial support to small and medium-sized enterprises with projects abroad, in particular in developing countries. Similar schemes have been advanced in the United States (Overseas Private Investment Corporation and Small Business Administration), and Development Finance Corporations have been established in Belgium, Denmark, the Federal Republic of Germany, the Netherlands, and other countries with similar objectives. 22/

23. In a number of host developing countries, the current policy measures to promote foreign direct investment tend to focus on large transnational corporations. However, several countries have changed their regulations to attract small and medium-sized transnational corporations. In Indonesia, regulations on minimum investment by foreign firms were abolished in 1988. In the Republic of Korea, minimum levels of foreign direct investment were reduced from $500,000 to $100,000 in 1980, and in the case of joint ventures with Korean small and medium-sized enterprises these were further reduced to $50,000 in 1986. Chile also lowered its minimum investment level from $100,000 to $25,000 in 1986. Other measures include easier procedures (Mexico) and tax incentives for their foreign direct investment (Cameroon, Sri Lanka and Zaire). Host country policies and promotional measures are important for small and medium-sized enterprises because they tend to respond more actively to host country requests than large transnational corporations. 23/

24. There has also been an increasing interest in developing local small and medium-sized enterprises in developing countries. Some Governments in developing countries have initiated specific schemes for the promotion of joint ventures or other forms of co-operation between their small and medium-sized enterprises and those from developed countries. For example, the Korean Small and Medium Industry

Promotion Corporation, in collaboration with Association pour la promotion et le développement industriel of France, set up a programme of transfer of technology and joint ventures between the Republic of Korea and France in 1984. In 1987 the Governments of Argentina and Italy concluded a treaty that seeks to mobilize $1.5 billion for the period 1988-1992 for private investments through joint ventures, giving special attention to small and medium-sized enterprises. In Mexico, Nacional Financiera (the State bank) has created co-investment funds with several European countries to promote joint ventures between small and medium-sized enterprises. At the international level, the United Nations Centre on Transnational Corporations has sponsored the EMPRETEC programme to promote and develop entrepreneurship in small and medium-sized operations. The International Finance Corporation has increasingly placed emphasis on programmes for the development of private investment in small-scale industries in developing countries. The United Nations Industrial Development Organization has initiated various investment co-operative programmes and, among others, launched a Programme on Plant Level Co-operation for Technology Transfer to Small and Medium Enterprises in 1979. Host developing countries could monitor the industries in which scale economies are not crucial and examine the potential for transferring small and medium-sized enterprises' know-how in such industries.

25. All these developments and initiatives are very recent and their effectiveness is hard to assess. The evidence from the Republic of Korea, where large enterprises or large business groups have played a dominant role in leading the economy, shows that small and medium-sized enterprises have grown enough to account for 83 per cent (555 cases) of total joint ventures (671 cases) with foreign firms during 1984-1987 and account for more than 40 per cent (863 cases) of introduction of technologies from abroad (2,045 cases) during the same period. 24/ The role of small and medium-sized enterprises in international co-operation is clearly growing.

II. TRANSNATIONAL CORPORATIONS FROM DEVELOPING COUNTRIES

26. Foreign direct investment from developing countries has been of interest to policy makers in developing countries on the premise that transnational corporations from developing countries would provide different technology, managerial skills and other components of foreign direct investment from those provided by transnational corporations from developed countries. Transnational corporations from developing countries could also give additional bargaining power to host developing countries and strengthen regional economic integration. Discussions on transnational corporations from developing countries generally focus on their impact on host countries. However, developing country transnational corporations may also have a favourable impact on the economic development in their home countries.

27. This chapter also focuses on a particular aspect of the activities of transnational corporations from developing countries, that is, economic co-operation among them promoted by collaborative arrangements among their enterprises. Such collaboration may be in respon to formal integration arrangements 25/ or independent of them, and it takes place mainly in the form of joint ventures. A joint venture is defined as an arrangement whereby two or more

parties enter into a contractual agreement to control jointly a specific business undertaking and contribute resources to accomplish agreed-upon goals. 26/

A. Foreign direct investment from developing countries

28. Foreign direct investment originating in developing countries, though it is growing and its share in world foreign direct investment is increasing, remains relatively small and seems to be shifting its direction away from developing countries to developed countries. The foreign-direct-investment stock from developing countries in 34 host countries (12 developed and 22 developing countries) 27/ is estimated at about $50 billion in 1985, of which $36 billion and $13 billion was invested in developed and developing countries, respectively (table 2). 28/ Although the share of inward foreign-direct-investment stock from developing countries in the total foreign-direct-investment stock of these 34 countries has been increasing, it still accounted for less than 10 per cent in 1985. About 8 per cent and 16 per cent of inward foreign-direct-investment stock in developed and developing countries, respectively, in 1985 were from developing countries. In terms of investment value, the United States is the largest host country, absorbing $22 billion of foreign direct investment from developing countries in 1985, accounting for 44 per cent of total foreign direct investment from developing countries in 34 host countries. Developing host countries like Brazil, China, Indonesia and Singapore each attracted more than $1 billion foreign direct investment from developing countries, and in China and Malaysia about half of inward foreign direct investment was from developing countries. For some countries, the geographical expansion of their foreign direct investment has reached Eastern European countries and the Soviet Union. 29/

29. Excluding foreign direct investment originating in tax-haven countries in Latin America and the Caribbean, which is made on the whole by firms having parents in developed countries, Asia has become the largest investing region in the 1980s (table 2). The growth of outflows of foreign direct investment from Asia in the 1980s has been dramatic. This is due in part to the surge of foreign direct investment from China, which has become one of the largest investors in developing countries, and to the accelerating flows from economies such as the Republic of Korea and Taiwan Province of China. At the end of 1988, the outward stock of the Republic of Korea and Taiwan Province of China stood at $1,409 million and $593 million, 56 per cent and 64 per cent of the total, respectively, being cumulated within only the last three years (1986-1988). 30/

30. Although there are some economies that invest more in developing than in developed countries including, according to the Centre's estimates, China, Hong Kong, India, Liberia, Malaysia, the Philippines, Singapore, Thailand, Uruguay and the United Arab Emirates, the importance of developing countries as a group of host countries has declined from 39 per cent in 1975 to 27 per cent in 1985 (table 2). Outward data for the Republic of Korea and Taiwan Province of China point to the increasing importance of developed countries as host countries. The share of developed countries (North America and Europe only) in all recipient countries increased from 14 per cent in 1974 to 33 per cent in 1983 and to 41 per cent in 1988 for the Republic of Korea, while for Taiwan Province of China the importance

Table 2. Estimated outward foreign-direct-investment stock of developing countries, by major home region, 1975, 1980 and 1985

(Millions of dollars)

Home region a/	Host countries								
	1975			1980			1985		
	Developed market economies	Developing countries	Total	Developed market economies	Developing countries	Total	Developed market economies	Developing countries	Total
Africa	255	44	299	506	235	741	690	522	1 212
Asia	535	2 217	2 752	1 368	4 143	5 511	4 629	8 337	12 966
Latin America b/	4 308	940	5 248	13 629	1 936	15 565	20 066	2 895	22 961
Middle East	394	21	415	1 374	304	1 678	5 480	519	6 000
Total c/	5 653	3 591	9 244	17 168	7 281	24 449	36 240	13 323	49 563
Foreign-direct-investment stock of developing countries as a percentage of foreign-direct-investment stock of all countries	4.4	15.0	6.1	6.1	14.1	7.3	8.1	15.9	9.3

Source: United Nations Centre on Transnational Corporations, based on official national data on inward foreign direct investment of 34 countries.

a/ Only includes data for which allocation of regions/countries is specified.

b/ Foreign direct investment from tax-haven countries (Bahamas, Cayman Islands, Netherlands Antilles and Panama) accounted for 38 per cent ($2 billion) in 1975, 79 per cent ($12.3 billion) in 1980, and 78 per cent ($17.9 billion) in 1985. The bulk of their foreign direct investment is concentrated in developed countries (58 per cent in 1975, 87 per cent in 1980 and 86 per cent in 1985).

c/ Includes Turkey and Yugoslavia and unallocated data for which foreign direct investment is from developing countries. Thus, totals do not add up.

of the United States as a host country in all countries increased from 43 per cent in 1980 to 55 per cent in 1985 and to 60 per cent in 1988.

31. Overall transnational activities of developing country firms are greater than demonstrated by the statistics as these firms prefer new forms of investment to the wholly/majority-owned subsidiary form of investment. For example, in international construction markets, there were 43 developing country firms in the top 250 international contractors in 1988, capturing a 7 per cent share of foreign contracts. 31/ About one half of their total contracts came from foreign countries. In some regions they have held a relatively stronger position. In Africa, 5 Turkish firms were awarded contracts of an amount ($8 billion) more than that obtained by 19 Japanese firms ($5.2 billion) and, in the Middle East, contracts of a greater value were awarded to 7 firms from the Republic of Korea ($5.4 billion) than to 10 firms from France ($5.3 billion) or 12 from the Federal Republic of Germany ($2.7 billion) in 1988.

B. Joint ventures among developing country firms

1. Evidence

32. In principle, it is possible to conceive of joint ventures without equity participation. However, limited statistics available on joint ventures are usually compiled on the basis of some degree of equity participation. Moreover, in some cases data derived from majority-owned companies may include wholly owned ones. Despite these limitations, the evidence below is indicative of the importance of joint ventures as a form of collaboration among developing countries' enterprises.

33. There are only a few developing countries in which comparative statistics are available on collaboration arrangements between their firms and those from developed and other developing countries. For Thailand as a host country, a review of 7 developing countries' investment and 11 developed countries' investment as at 1986 revealed that 94 per cent of foreign direct investment was in the form of joint ventures, while from the developed countries 45 per cent was in the form of joint ventures. 32/ In Indonesia, among the top 25 largest foreign-direct-investment projects that were less than 100 per cent foreign-owned between 1967 and 1989, 3 out of 4 investments from developing countries were minority-owned (less than 50 per cent equity share); of the 21 by developed countries firms, only 6 were minority-owned.

34. Available statistics on joint ventures by Indian firms abroad show that there were a total of 190 joint ventures with a value of about $80 million as at 31 July 1987, of which 82 per cent of total number and 93 per cent of total value were with developing country partners. 33/ In developing host countries, manufacturing joint ventures accounted for the bulk of the total, 69 per cent of the number of joint ventures and 88 per cent of their value. In developed host countries, there were only 33 joint ventures, of which 26 were in services and 7 in manufacturing. Data on the Republic of Korea 34/ indicate that, in 1983, about half of that country's investments in developing host countries were minority-owned, while in developed host countries only 12 per cent were

minority-owned. In developed host countries, 194 out of 225 investments were majority-owned. The number of manufacturing investments in developing host countries (37) was about three times as high as in developed host countries, three quarters of which were minority-owned.

2. Reasons for joint venture forms and their advantages

35. The preference for joint ventures as a form of foreign investment by developing country transnational corporations is, to some extent, a result of explicit or implicit restrictions on wholly owned foreign ownership, which tend to be more pronounced in host developing countries. Besides, in some developing host countries, notably newly industrializing countries, firms have developed their managerial and technological capabilities enough to permit alternatives to foreign direct investment in the form of wholly owned subsidiaries. Investing firms from home developing countries also choose joint-venture investments more often than those from developed countries, as they face greater resource constraints in setting up wholly owned enterprises abroad. A shortage of foreign exchange available for foreign investment is an acute external constraint for most developing countries. Lack of investible funds is a typical internal constraint on firms.

36. There are also other explanations for the greater incidence of joint ventures among developing countries. Investing firms from developing countries typically offer technologies that are adapted and standardized, rather than proprietary in nature. Therefore, the protection and control of technologies through whole or majority ownership of equity is a less important consideration for them. Joint ventures can also disperse risks associated with foreign direct investment by sharing risks with local firms. The reduction of risks is of greater importance for investing firms from developing countries since one failure of a foreign project could easily destabilize the parent firms. Although unfamiliarity with the environment in other developing countries does not pose a serious problem to developing country firms as theirs may be similar, local political risks are sometimes unpredictable and having local partners becomes a distinctive advantage in reducing political risks. Joint ventures and other new forms of investment tend to be more prevalent than wholly owned operations in industries producing more non-differentiated products, employing standardized technologies - and these are precisely the industries in which firms from developing countries undertake foreign investment to a greater degree than those from developed countries. Several developing countries have a comparative advantage in foreign investments in the construction industry in which minority-owned joint ventures are the preferable form as construction contracts tend to be awarded to local firms.

37. However, there are some exceptions in which joint ventures are not the preferred form. For example, in banking, trade and real estate, investing firms from developing countries choose to invest in the form of wholly owned subsidiaries. Foreign direct investment in these industries is, however, concentrated in developed countries.

38. Available evidence shows that joint ventures among developing countries are mostly in the manufacturing sector. In that sector, investing firms from developing countries have a comparable advantage in low-cost products. Thus, firms in developing host countries already producing similar products are exposed to increased competition that may lead to higher efficiency in the long run. Direct involvement of host country firms in the management and technology under joint venture arrangements enhances their capabilities in these areas. In some cases joint ventures among developing countries involve more than two partners and countries. Although this type of joint venture is not yet important, 35/ the number is growing, more so for projects in which developed country firms are involved as the third party. In such projects, investing firms from developing and developed countries complement each other in the technologies offered, the operation of projects and in marketing. Local partners may be exposed to different, more sophisticated technological and managerial capabilities than would probably be available from developing country partners alone.

C. Impact of foreign direct investment on home countries

39. Earlier studies tended to focus on the impact of developing country transnational corporations on host economies. The Centre's current research, however, focuses on the impact of these transnational corporations on their home countries in such areas as transfer of technology and management skills, balance of payments and overall economic development.

40. Besides access to large markets one of the implications of the shift of direction of foreign-direct-investment flows from developing to developed countries as noted before is that this may facilitate access to new and more advanced technologies that can enhance domestic capabilities of investing developing county firms. Direct exposure to more advanced managerial and organizational skills provides developing country investors with opportunities to gain internationally competitive managerial and marketing experiences. There is also the possibility of diffusion of acquired know-how to other firms in home co[illegible]ies through spill-over effects.

41. Another benefit of developing country transnational corporations for their home countries is increased exports through the establishment and expansion of foreign affiliates and subsidiaries engaged in trade and trade-related businesses. According to the Centre's data base on developing country transnational corporations, firms in the trade sector account for about one quarter of all transnational corporations whose sectoral involvement was clearly identifiable and nearly one half of services transnational corporations. As manufacturing transnational corporations are also likely to establish trade affiliates, the real number of foreign affiliates related to trade business would be higher than the number of foreign trade affiliates owned by trade transnational corporations. The facilitation of exports from home countries is an important motivation for transnational corporations based in developing countries. Foreign affiliates of trade transnational corporations based in Asia are almost equally distributed between developed and developing countries, but those from the Middle East are concentrated in developing countries, particularly in their own region. 36/

42. The most controversial aspect of the impact on home countries is the overall balance-of-payments effect. There has been a concern over the outflow of capital, and many developing countries have imposed limitations on the availability of foreign exchange for direct-investment purposes. The initial impact on the balance of payments is a negative flow of funds to finance new investments, but these are recouped in subsequent years through remittance of profits, interest, dividends, royalties, management fees and so on. An examination of 20 developing countries during 1975-1988 shows that about one third of foreign-direct-investment outflows were recouped during this period, though in six countries (Botswana, Egypt, Fiji, Philippines, Senegal and Tunisia) cumulated remittance of income exceeded cumulated foreign-direct-investment outflows. 37/ The recoupment period or the number of years required to produce a balance-of-payments surplus enough to outweigh outflows of funds is not easy to estimate, because the effects on the balance of payments should additionally include the net trade effect (export generation effect minus export displacement effect). Thus, the results vary with the methodology used and they also vary from country to country. 38/ In the case of India, it has been noted that the generation of a balance-of-payments surplus outweighs outflows; one unit of foreign direct investment is estimated to produce more than two units of foreign exchange earnings. 39/ Further research is required to permit any definitive generalization.

43. An important concern relates to a depletion of domestic resources owing to outflows of investment capital. However, the share of investment abroad in total investment for developing countries was only 0.6 per cent in 1987, compared to 7 per cent for developed countries. 40/ Besides, it is possible that net trade effects or the additional income generate more demand for home country goods and services and lead to the growth of employment, which may more than offset the benefits that would have been derived from investment within the home country.

D. Some policy implications

44. These potential benefits generated by foreign direct investment are long-term benefits, as the effects of foreign direct investment have a long gestation period. Thus, Governments in developing countries need to adopt long-term and sustainable foreign-direct-investment policies to capitalize on contributions of outward foreign direct investment to economic development. In some countries, both developed and developing, foreign direct investment is being increasingly used as an integral part of an overall development strategy and particularly as a means of increasing the international competitiveness of their economies. This approach deserves close attention by developing countries.

45. In order to assess the role of developing country transnational corporations and their impact, there is a great deal of work still to be done on the improvement and expansion of data. Outward foreign-direct-investment data are not even compiled in large developing countries except for such economies as India, the Republic of Korea and Taiwan Province of China.

46. The institutional and legal framework for outward foreign direct investment should be consistent with the country's economic and social objectives. If outward

foreign direct investment is assessed to have a favourable impact on the home country economy, Governments in these home countries could consider lessening or removing constraints on outward flows of equity investment. Some countries have begun to do so and are providing institutional support for the promotion of foreign direct investment. For example, the Republic of Korea and Taiwan Province of China offer financial and insurance assistance and tax incentives for outward foreign direct investment.

47. Joint ventures among developing countries can be viewed as one of the ways to promote the broader objective of regional integration arrangements among developing countries, that is, to promote the growth and development of member countries through various forms of economic co-operation. These arrangements are brought into being through explicit agreements between concerned Governments.

48. Past measures to promote co-operation between firms within regional integration schemes among developing countries appear to have had little success, partly because of their excessive emphasis on large-scale projects sought to be implemented and operated on a multilateral basis. 41/ In contrast, co-operation at the production level, through joint ventures between companies, has fared better.

49. If the growth of joint ventures among developing country firms is to become a more effective tool of integration of those countries, several conditions have to be met. The development of and access to local capital markets are necessary as many investing firms from developing countries face shortages of foreign exchange. Appropriate measures are also required to develop the managerial and technological capabilities of local firms so that they can become effective partners.

50. It may also be advantageous to design specific incentives. Some regional schemes specifically promote joint ventures. The ASEAN Industrial Joint Venture programme ratified in 1983, for example, provides tariff relief to ventures in which at least two member countries participate and control more than 40 per cent of equity. Collaboration between firms can be one way to foster regional economic integration and co-operation among developing countries. Policy measures required to promote such collaboration deserve explicit attention.

III. ENTERPRISES FROM EASTERN EUROPE AND THE UNION OF SOVIET SOCIALIST REPUBLICS

A. Data

51. Investments by enterprises from Eastern European countries (including Yugoslavia) and the USSR in Europe, North America and the developing world remain insignificant in relation to the total flow of foreign direct investment, but they are becoming important instruments through which East-West business transactions are conducted. Average annual equity investment by Polish investors in their direct investment enterprises abroad increased from $5.3 million in 1981-1984 to $15.3 million in 1985-1988, in both convertible and non-convertible currency. 42/ The number of enterprises from Eastern Europe (excluding Yugoslavia) and the USSR operating in member countries of the Organisation for Economic Co-operation and

Development (OECD) has been estimated at 579 at the end of 1989 (table 3), compared to approximately 283 in 1977. 43/ In 1988, Hungary, Poland and the USSR were the largest home countries, with 152, 143 and 135 foreign affiliates in the OECD countries, respectively. 44/ The Federal Republic of Germany is the most popular destination, with 109 such enterprises at the end of 1989. 43/ The number of foreign affiliates in developing countries has been roughly estimated at 268 at the end of 1989. 43/ By mid-1985, there were 15 joint ventures among enterprises from CMEA member States of the Council for Mutual Economic Assistance (CMEA). 45/

52. An estimated $876 million in aggregate authorized equity capital had been invested by enterprises from Eastern Europe (excluding Yugoslavia) and the USSR in the OECD countries by the end of 1989, compared to $575 million at the end of 1985. 43/ Considering that Yugoslavia is the most active investor, with 199 foreign affiliates accounting for 28 per cent of the total number of foreign affiliates from Eastern Europe and the USSR to the OECD countries in 1988. 44/ the total amount of equity capital is higher. One estimate sets the total value of 720 investments in both developed and developing countries at about $1 billion at the end of 1983. 46/

B. Characteristics and importance

53. Enterprises from Eastern Europe and the USSR are located in countries with strong trade links with their home economies and have traditionally engaged primarily in trade and trade-supporting investment activities. Marketing and trade enterprises gradually began to engage in activities beyond export promotion. The larger of them became involved in transport, distribution, technical servicing and manufacturing in order to ensure flexibility of supplies and to modify products according to Western specifications and tastes. Overall, foreign affiliates abroad are engaged in manufacturing either in activities auxilliary to services or in order to exploit a technological advantage for a product developed in their home country. By the end of 1988 (excluding Yugoslavia), 69 per cent of the total number of foreign affiliates in the OECD countries were primarily in marketing, distribution and technical servicing, 26 per cent were in financial and other services and 6 per cent in manufacturing, extraction, processing and assembling. 44/ The corresponding shares for 1977 were 70 per cent in marketing and distribution, 26 per cent in other services and 4 per cent in manufacturing and extractive. 43/ Although there has been a slight shift from services to extractive and manufacturing between 1977 and 1988, the former remains predominant for developed countries. In developing countries, primary and manufacturing production is relatively more important, accounting for approximately 27 per cent of the total number of foreign affiliates from Eastern Europe and the USSR in 1989. 43/

54. In terms of ownership, enterprises from Eastern Europe and the USSR are characterized by a preference for sole or majority ownership. Nevertheless, there are differences in the share of equity held in foreign affiliates abroad, depending, among other things, on company size, type of activity, policy framework of both host and home countries, and availability of hard currency.

Table 3. Distribution of foreign affiliates from Eastern Europe and the USSR, end-1989 a/

Regions of destination	Number
Developed countries	579
Western Europe	494
North America	64
Other developed	21
Developing countries	268
Africa	98
Asia	51
Latin America	59
Middle East	60
CMEA	15 b/
TOTAL	862

Sources: East-West project, Carleton University, Ottawa, and United Nations Centre on Transnational Corporations "Activities of the United Nations Centre on Transnational Corporations and the activities of the joint units with the regional commissions", E/C.10/1987/4, 23 February 1987.

a/ Excludes Yugoslavia.

b/ Mid-1985.

For example, enterprises from Romania are more willing to engage in minority-equity ownership than those from Czechoslovakia. 47/

55. There are several characteristics of enterprises from Eastern Europe and the USSR that differentiate them from those from developed market economies. Enterprises from the former, for the most part, are not as experienced in operating in different economies as those originating from developed countries. They are located mostly in those countries which are trade partners of their country of origin, whereas for many transnational corporations from developed market economies, that is not the case. Foreign affiliates of Eastern European and USSR enterprises have always concentrated in services, whereas those from other countries were concentrated in manufacturing, gradually shifting to services.

56. The impact of the activities of Eastern European and USSR enterprises abroad on their home countries, in addition to promoting and supporting exports and facilitating imports, varies from the ability to purchase goods "on the spot" so as to supply the parent company and other enterprises at home effectively, to the generation of income in the form of commissions for representing Western companies in their home country and the acquisition of advanced technology and managerial experience. From the host countries' point of view, investments by these foreign affiliates are quantitatively insignificant to their economies. However, in some cases, Eastern European and USSR enterprises in developing countries provide important technical assistance to them. For example, a main factor for Polish foreign affiliates establishing production in developing countries is the provision of technology suitable to their level of development. 48/

C. Legal framework

57. The establishment of foreign affiliates abroad, either wholly owned or with the participation of foreign capital, is governed by the legal and institutional framework of the host country. In the case of the centrally planned economies, however, as in the case of some developed market economies, the home country regulatory framework is also relevant. In this framework, the formation of an enterprise abroad is usually placed in the context of a comprehensive programme with long-term trade, industrial production and technical co-operation goals. For example, the motives of Poland's legal framework for establishing equity ventures abroad, as stated in the Foreign Ministry Regulation of 12 October 1984, are to increase Polish export volume and value, to facilitate trade and to obtain favourable prices and payment terms for imports. 49/ Similarly, the Soviet Union's motivation, expressed in the Decree of the Council of Ministers of the USSR of 18 May 1989, is to promote exports of Soviet products in foreign markets, to ensure a stable and effective supply of required imports, to generate income through foreign economic operations and to obtain access to advanced technology and management experience (see the box).

58. The establishment of foreign affiliates abroad is subject to approval granted by the ministry and/or other government organizations in charge of these matters. In the case of Poland, the establishment of an equity venture abroad requires the authorization of the Foreign Trade Ministry. In cases where the amount of convertible currency needed exceeds a certain minimum, permission must also be obtained from the Finance Ministry. 50/ For the Soviet Union, the establishment of enterprises abroad requires the consent of the USSR Council of Ministers and of the Councils of Ministers of the constituent republics, based on the recommendations of the Ministry of Foreign Economic Relations and the Ministry of Foreign Affairs. Registration in a special register of the Ministry of Finance is obligatory (see the box).

Decree of the Council of Ministers of the USSR, dated 18 May 1989, on the development of economic activities of Soviet organizations abroad a/

The USSR Council of Ministers, in an effort to encourage the economic activities of Soviet organizations abroad and thus strengthen the country's position in the world economy, issued a decree on 18 May 1989 seeking to promote Soviet investments and participation in enterprises abroad. The objective of the decree is to promote Soviet goods, particularly industrial goods, in foreign markets, to ensure a stable supply of imports of necessary resources into the Soviet Union, to generate additional income from foreign economic operations and to develop new forms of co-operation with foreign countries, particularly in the area of utilization of advanced technology and management experience.

The decree encourages the establishment of enterprises abroad with Soviet participation in capital and management and securities operations in stock and commodity exchanges. Soviet partners in enterprises abroad should maintain control over them to ensure the effective utilization of the Soviet contribution. These enterprises may be financed out of funds of Soviet partners, out of central foreign currency funds of their superior management bodies or with loans. Soviet partners are to conduct securities operations with the intermediation of the USSR Vneshekonombank (Bank for Foreign Economic Activities), Soviet banks abroad or independently, using their own funds, or loans from the foreign currency funds of the banks. Earnings from enterprises abroad and income from securities operations may be transferred to the Soviet Union and be reflected in the rouble equivalent in the overall results of the economic activities of the Soviet partner or, otherwise, may be deposited to the Soviet partners' foreign currency fund.

Soviet State-owned enterprises, associations and organizations may be set up with the consent of superior ministries and departments of the USSR Council of Ministers and the Councils of Ministers of constituent republics, taking into account the recommendations of the USSR Ministry of Foreign Economic Relations and the USSR Ministry of Foreign Affairs. Other Soviet organizations, including production co-operatives and other public organizations, may set up foreign enterprises with the consent of the USSR Ministry of Foreign Economic Relations taking into account recommendations of the USSR Ministry of Foreign Affairs. These Ministries will also arrange for training of Soviet experts in securities operations, will analyse Soviet partners' experiences in economic activities abroad and will provide advisory assistance.

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a/ See The CTC Reporter, No. 28 (Autumn 1989).

D. Conclusion

59. In conclusion, the activities of enterprises from Eastern Europe and the USSR remain relatively small for host countries. For the home countries, the existence of these enterprises abroad is relatively significant, because they are better positioned to take advantage of the opening up of the Eastern European and USSR market through their established infrastructure and experience in the West, by promoting trade, acquiring technology and representing Western companies. Eastern European countries and the USSR, in recognition of the important role of these enterprises, have begun to introduce laws to further encourage and facilitate their activities abroad. Consequently, the number of foreign affiliates from Eastern Europe and the USSR is expected to rise, and there is a potential for greater export of capital in the future.

IV. GENERAL CONCLUSIONS

60. Non-conventional transnational corporations are acquiring increasing importance in the international transfer of productive resources. Small and medium-sized transnational corporations can play an important role in the economic development in host developing countries, especially in the development of local small-scale industries. A significant impact of developing country transnational corporations on the development process in their home economies is conceivable. Regional growth and development in developing countries can be enhanced through arrangements of joint ventures among developing country firms. The presence of enterprises from Eastern Europe and the USSR in various countries increases business opportunities with the rest of the world and may eventually contribute to balancing the global flow of foreign investment resources likely to be increasingly attracted by socialist countries as host countries.

61. However, as these firms have limited resources compared to big or conventional transnational corporations, they are not often in a position to investigate market opportunities abroad. Host developing countries themselves could be more active in searching them out, rather than being passive recipients. At the same time, developing countries could take steps conducive to the transnationalization of their own firms and ensure that such transnationalization has a positive impact on overall economic development and contributes to economic integration through the form of joint ventures.

Notes

1/ Official Records of the Economic and Social Council, 1989, Supplement No. 10 (E/1989/28/Rev.1), para. 107.

2/ The Centre has already noted a growing phenomenon of the presence of non-conventional transnational corporations. See, for example, Transnational Corporations in World Development: A Re-examination (United Nations publication, Sales No. E.78.II.A.5), pp. 51-53; Transnational Corporations in World Development: Third Survey (United Nations publication, Sales No. E.83.II.A.14), pp. 31-33; and Transnational Corporations in World Development: Trends and Prospects (United Nations publication, Sales No. E.88.II.A.7), pp. 36-40.

Notes (continued)

3/ Graham Bannock, The Economics of Small Firms: Return from the Wilderness (Oxford, Basil Blackwell, 1981).

4/ In Japan, for example, the labour-capital ratio is about three times higher in small and medium-sized enterprises than in large firms, and for both small and medium-sized enterprises and large firms, services are twice as labour-intensive as manufacturing.

5/ According to the United States Small Business Administration, 45 per cent and 55 per cent of total changes in employment in small and medium-sized enterprises were accounted for by net births (births minus deaths) and net internal growth (expansions minus contractions), respectively, during 1980-1986, and in large firms the corresponding figures were 96 and 4 per cent, respectively. As most of the births in large firms probably come from the growth of small and medium-sized enterprises that moved up into the larger category or from the result of mergers and acquisitions between small and medium-sized enterprises, this also indicates that small and medium-sized enterprises are more dynamic in creating new employment.

6/ United States Small Business Administration, The State of Small Business: A Report of the President, 1985 (Washington, D.C., United States Government Printing Office, May 1985), pp. 125-131.

7/ Roy Rothwell, "Small firms, innovation and industrial change", Small Business Economics, 1 (1989), pp. 51-64. The share of the firms with 1,000-9,999 employees in the number of innovations declined by about 10 percentage points to about 30 per cent in 1983 from the mid-1960s.

8/ Netherlands Central Bureau of Statistics, Statistical Yearbook of the Netherlands 1987 (The Hague, 1988), p. 187.

9/ In this data base, small and medium-sized transnational corporations are defined as those whose employment is less than 500 in all sectors. Banks, insurance and other financial companies are currently excluded. Sources include Who Owns Whom (London, D&B International), Kompass Directory (various issues) and national directories.

10/ Data for 1987. Based on the United Nations Centre on Transnational Corporation's Billion Dollar Club Data Base.

11/ Japanese small and medium-sized enterprises are defined as those firms whose capital is less than 100 million yen and employment is less than 300 in manufacturing, capital is less than 30 million yen and employment is less then 100 in wholesale trade, and capital is less than 10 million yen and employment is less than 50 in retail trade and other services.

Notes (continued)

12/ Data compiled from Obie G. Whichard, "Employment and employee compensation of U.S. multinational companies in 1977", Survey of Current Business, 62 (February 1982), table 5, pp. 44 and 45; United States, Department of Commerce, Bureau of the Census, General Report on Industrial Organization: 1977 Enterprise Statistics (Washington, D.C., United States Government Printing Office, April 1981), table 3, pp. 146-229. Firms with employment size 500-999 are categorized as large-small firms.

13/ Data compiled from Betty L. Barker, "A profile of U.S. multinational companies in 1977", Survey of Current Business, 61 (October 1981), table 6, p. 49; Obie G. Whichard and Michael A. Shea, "1982 Benchmark survey of U.S. direct investment abroad", Survey of Current Business, 65 (December 1985), table 7, p. 46. In terms of assets size, $25 million could be the cut-off criterion between small- and medium-sized enterprises and large firms. Although this decline is due in part to the lifting of the cut-off criterion, which resulted in a decrease in the number of transnational corporations covered in the surveys, even if those omitted transnational corporations were included in the category of small transnational corporations, the number of transnational corporations declined. Parents whose foreign affiliates' total assets, sales or net income were each less than $0.5 million in 1977 and less than $3 million in 1982 are excluded from the surveys. The number of omitted transnational corporations was 1,175 in 1977 and 1,412 in 1982.

14/ Department of Trade and Industry, Business Monitor, MA4/M4, Census of Overseas Assets 1974, 1978 and 1981 (London, Her Majesty's Stationery Office, 1978, 1981 and 1984), tables 5, 12 and 12, respectively.

15/ Small and Medium Enterprise Agency, Chusho Kigyo Hakusho (White Paper on Small and Medium Enterprises), 1989 (Tokyo, Okura-sho Insatsu-kyoku, May 1989), table 1-2-1, p. 54.

16/ Ministry of International Trade and Industry, Dai Ni-kai Kaigai Jigyo Katsudo Kihon Chosa (The Second Basic Survey on Overseas Business Activities: Statistical Compilation of Overseas Investment) (Tokyo, Keibun Shuppan, August 1986), tables I-3 and I-42, pp. 52 and 53 and 86 and 87. Figures are based on 487 small and medium-sized transnational corporations and 674 large transnational corporations.

17/ Based on 103 foreign affiliates for both cases of small and medium-sized transnational corporations and large transnational corporations. Parents and foreign affiliates whose lines of business and host countries are the same or similar between small and medium-sized transnational corporations and large transnational corporations are chosen. Thus, typical niche producers that do not have competitors are not included. However, if the labour-capital ratio is calculated based on the average employment and average capital of 103 foreign affiliates, rather than the average of labour-capital ratio of each foreign affiliate, the labour-capital ratio of foreign affiliates owned by small and medium-sized transnational corporations is higher only in services but not in

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manufacturing. Data compiled from Toyo Keizai Shimposha, Gyoshu-betsu Kaigai Shinshutsu Kigyo Soran (Japanese Multinationals Facts and Figures, Sectoral Edition), 1988 (Tokyo, 1988). In this calculation small and medium-sized transnational corporations are defined as those whose employment is less than 500 regardless of sector.

18/ Small and Medium Enterprise Agency, Chusho Kigyo Hakusho, 1989, op. cit., table 1-2-7, p. 60.

19/ Except in 1981 and 1983. Small and Medium Enterprise Agency, Chusho Kigyo Hakusho (White Paper on Small and Medium Enterprises), 1986 (Tokyo, Okura-sho Insatsu-kyoku, June 1986), table 3-3-2-6, p. 193. Base year is 1977.

20/ United Nations Conference on Trade and Development, "Impact of technology transfer by foreign small and medium-sized enterprises on technological development in Kenya", UNCTAD/TT/85 (Geneva, 1987), chap. III; and J. Campos, S. Feldman and E. White, "Implications of the transfer of technology by small and medium-sized enterprises for the economic and technological development of developing countries: a case-study of the metalworking industry in Argentina and Brazil", UNCTAD/TT/69 (Geneva, UNCTAD, 16 December 1985), chap. III.

21/ For example, in the technology transfer by Japanese small and medium-sized enterprises, 74 per cent of recipient firms are local small and medium-sized enterprises and, in the case of large firms' technology transfer, 53 per cent of recipient firms are local small and medium-sized enterprises. Small and Medium Enterprise Agency, Chusho Kigyo Hakusho, 1986, op. cit., table 3-3-2-5, p. 193.

22/ Various measures and incentives given to small and medium-sized enterprises in home countries are documented in E/C.10/1990/4.

23/ For example, Japanese small and medium-sized transnational corporations cited host country requests as the main reason for investing more than twice as often as large transnational corporations (18 per cent versus 8 per cent). Small and Medium Enterprise Agency, Chusho Kigyo Hakusho (White Paper on Small and Medium Enterprises), 1988 (Tokyo, Okura-sho Insatsu-kyoku, May 1988), table 2-1-25, p. 49.

24/ Il-Hwan Kim, "Small and medium enterprises in Korea", Korea Exchange Bank, Monthly Review, XXII (July 1988), tables 9 and 10, pp. 11 and 12.

25/ An analysis of regional economic integration among developing countries is dealt with in E/C.10/1990/2.

26/ See "Accounting for and by joint ventures", E/C.10/AC.3/1990/8, sect. I.

27/ Countries/areas examined are: Australia, Canada, Denmark, France, Federal Republic of Germany, Italy, Japan, Netherlands, Sweden, Switzerland, United Kingdom and United States; Argentina, Brazil, Chile, China, Colombia, Ecuador, Hong

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Kong, India, Indonesia, Kenya, Republic of Korea, Malaysia, Nigeria, Pakistan, Peru, Philippines, Singapore, Taiwan Province of China, Thailand, Turkey, Venezuela and Zaire.

28/ The geographical distribution of foreign affiliates based on the Centre's data base on developing country transnational corporations shows that 55 per cent of affiliates of Asian transnational corporations, 44 per cent of affiliates of Latin American transnational corporations and 73 per cent of affiliates of Middle Eastern transnational corporations are concentrated in developing countries. Currently the data base covers more than 800 transnational corporations in 25 developing countries (10 in Asia, 12 in Middle East and 3 in Latin America) and is limited to information on the number and geographical distribution of foreign affiliates.

29/ For example, in India, outward foreign direct investment of 32 million rupees (about $2 million) into Eastern European countries and the Soviet Union was approved during 1981 - September 1988 (data from the Indian Investment Centre), and the Government of India is considering establishing more than 50 joint ventures in the Soviet Union (Nihon Keizai Shimbun, 29 August 1989 (Tokyo), p. 9). The Samsung Group of the Republic of Korea started to produce home electronic goods in a joint venture in Hungary in 1989 (Nihon Keizai Shimbun, 20 May 1989 (Tokyo), p. 8).

30/ Based on cumulative flows of gross investment from 1968 for the Republic of Korea and cumulative approved flows from 1959 for Taiwan Province of China.

31/ "The top 250 international contractors", Engineering News Record, 13 July 1989, pp. 42-69.

32/ Only foreign direct investment that is promoted by the Board of Investment. The remaining share is for wholly owned investments.

33/ Indian Investment Centre, Indian Joint Ventures Abroad (New Delhi, 1987).

34/ Bohn-Young Koo, "Korea: a leader in turnkey projects", in C. Oman, ed., New Forms of Overseas Investment by Developing Countries (Paris, Organisation for Economic Co-operation and Development, 1986), table 7, p. 119. There were 400 outward investments by 1983, of which 225 and 175 were in developed and developing countries, respectively.

35/ For example, in Sri Lanka, 15 per cent of the value of foreign investment in joint ventures with developing countries during 1979-1986 was accounted for by joint ventures involving three countries. The data are for projects approved by the Greater Colombo Economic Commission.

36/ In Asia, 76 out of 509 transnational corporations for which main lines of business are available are in trade and 53 per cent and 46 per cent of their foreign affiliates (numbering 235) are located in developed and developing countries, respectively, while in the Middle East 90 out of 227 transnational

Notes (continued)

corporations are identified as trade transnational corporations and 82 per cent of their 277 foreign affiliates are in developing countries. In Latin America there are only 2 trade transnational corporations identified in 37 transnational corporations.

37/ Based on the International Monetary Fund balance-of-payments tape received in November 1989, with Taiwan Province of China data supplemented from national sources. Countries/territories examined are: Algeria, Cameroon, Egypt, Gabon, Tunisia, Botswana, Kenya, Niger, Senegal and Swaziland in Africa; Argentina, Barbados, Brazil, Chile and Colombia in Latin America and the Caribbean; Republic of Korea, Philippines, Taiwan Province of China, Thailand and Fiji in Asia.

38/ Several studies have been done for some developed country cases. In the case of the United States, one study finds a recoupment period ranging from 7 to 22 years (G. C. Hufbauer and F. M. Adler, Overseas Manufacturing Investment and the Balance of Payments (Washington, D.C., United States Treasury Department, 1968)) and another finds it ranging from 0 to 16 years with the mean of 3-5 years (R. B. Stobaugh, et al., Nine Investments Abroad and their Impact at Home: Case Studies on Multinational Enterprises and the U.S. Economy (Boston, Harvard University Press, 1976)). As regards Australia, the recoupment period is estimated at less than three years (Bureau of Industry Economies, Australian Direct Investment Abroad: Effects on the Australian Economy (Canberra, Australian Government Publishing Service, 1984)).

39/ J. P. Agarwal, "Third world multinationals and balance of payments effect on home countries: a case study of India", in K. M. Khan, ed., Multinationals of the South: New Actors in the International Economy (New York, St. Martin's Press, 1986), pp. 184-195. As an example of developed countries, a study on the United Kingdom suggests that about 4 per cent of net foreign operating assets is continuously added to the balance of payments as annual gain (W. B. Reddaway, et al., Effects of United Kingdom Direct Investment Overseas: Final Report (London, Cambridge University Press, 1968)).

40/ The figures are for foreign-direct-investment outflows divided by gross fixed capital formation for 19 developed countries and 14 developing countries.

41/ Francisco Sercovich and Eduardo White, "Enterprise to enterprise co-operation among developing countries: elements for a global strategy", UNIDO/PC.99 (17 April 1984).

42/ International Monetary Fund balance-of-payments tape of October 1989.

43/ East-West Project, Carleton University, Ottawa.

44/ Carl McMillan, ed., The East-West Business Directory 1989 (Ottawa, Carleton University/Duncan Publishing, 1989), table 1.1, p. 11.

Notes (continued)

45/ United Nations Centre on Transnational Corporations "Activities of the United Nations Centre on Transnational Corporations and the activities of the joint units with the regional commissions", E/C.10/1987/4, 23 February 1987, p. 21.

46/ United States Department of Commerce, International Direct Investment: Global Trends and the U.S. Role (Washington, D.C., Superintendent of Documents, 1984), pp. 7 and 8.

47/ Carl McMillan, ed., The East-West Business Directory 1989 ..., p. 9.

48/ M. Lebkowski and J. Monkiewicz, "CMEA direct investments in the western countries: the case of Poland", Journal of World Trade Law, 21 (June 1987), pp. 27-38.

49/ Ibid., p. 30.

50/ Lebkowski and Monkiewicz, op. cit., p. 30.